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SHIPBOARD BUDGETING OF MAINTENANCE FUNDS

by

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by

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PREFACE

Congress has granted the Department of the Navy a total of $14.27 billion in new obligational authority for use during the 1966 fiscal year, exclusive of supplemental appropriations. Of this amount, $150.4 million or about 1.5% has been designated for the category labeled "Supplies and Equipage," an account that finances the costs of the majority of the daily operational maintenance tasks performed to keep the ships of the Fleet in fighting condition. Materials purchased with Supplies and Equipage funds include repair parts, consumable supplies, and equipage.[1] The first two of these three categories are the ones which deal with maintenance and essentially contain those materials which are used to keep ships clean, well preserved, and in proper working order. Although other accounts cover the cost of shipyard work, new equipment, and certain repair parts, the readiness of the Fleet's 941[2] ships is to a large extent dependent upon this small portion of the Navy's total budget.

The most prevalent method of assigning Supplies and Equipage funds is to allow each ship to obligate a certain amount of dollars during each quarter of the fiscal year. This ceiling figure for spending is referred to as the Operating Target, or OPTAR. While the amount of funds assigned to a ship does not usually vary from quarter to quarter, the ship may not spend money from its

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[1] "Consumable supplies" are administrative and housekeeping items as well as routine tools and hardware. "Equipage" consists of items of a durable nature, usually of high unit cost and often pilferable.

[2] The number planned to be in commission on 30 June 1966.

next quarter if it runs short of funds, nor may it carry over a balance from one quarter to the next. This limitation can create an incentive to spend all of the available funds each quarter (often on the theory that future funding levels may be reduced due to lack of need), and it can severely handicap a ship that runs low of money before the quarter ends. This method of alloting funds enables those responsible for the funds to avoid over-obligation in violation of the Anti-Deficiency Act[1], but it places shipboard officers in the delicate position of balancing immediate requirements against the need to have funds available for unexpected expenses.

At the start of Fiscal Year 1966, a new system was introduced in the Amphibious Force of the Atlantic Fleet. Ships in this force are now granted funds for use during the entire year and may use their discretion in formulating management practices relating to these funds, except that all but the smallest units must prepare budgets. This new method of handling OPTAR funds, referred to hereafter as POSTAR (Post-Operating Target), allows for a much greater degree of flexibility with which to adjust to frequently changing schedules of operation. Periods of deployment to overseas areas typically involve extraordinarily high obligation rates to increase inventory levels prior to departure, and commanding officers often have found it necessary to request extra funds. Having a sum of money for use throughout the year should enable officers to better cope with unusual periods of expenditure and should make financial planning more feasible and useful than under the former system.

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[1]The Anti-Deficiency Act provides for the punishment of any officer or civilian employee of the federal government who knowingly and wilfully violates appropriations, apportionments, or allocations. Such violation is punishable by a fine up to $5,000, as much as two years imprisonment, or both. (U.S., Revised Statutes, 31 U.S.C. 665, Section 3679).

After searching for an appropriate thesis topic, it was decided that an investigation of financial management at the shipboard level in connection with the new system of annual funding possessed merit. Interest in this topic stems from thirty-three months of personal experience as a division officer and department head on board a destroyer, during which time there was ample opportunity to become familiar with the difficulties of quarterly OPTAR management and to realize that there is very little financial management guidance provided to officers of the Fleet. Following initial research into the problem, four broad objectives for this study emerged. The objectives are to present:

1. The budgeting procedures employed aboard ships in the Atlantic Fleet's Amphibious Force.

2. The reaction to annual funding of the officers who work with the system.

3. Existing obstacles that prevent the POSTAR system's increased effectiveness.

4. A suitable budgeting system for shipboard use.

Since information dealing with the above topics has not previously been compiled to the author's knowledge, two questionnaires were prepared, copies of which were sent to each ship in the Amphibious Force of the Atlantic Fleet. Several open-ended queries were included in the questionnaires for the purpose of getting commanding officers' and department heads' actual practices and opinions concerning shipboard budgeting and annual funding. More specifically, questions were asked covering the three phases of budgeting that apply on a shipboard level: budget preparation, execution, and review. Other questions were aimed at getting personal opinions of the POSTAR system and learning of those obstacles that prevent its more effective implementation. Because of the

many different types of ships in the Amphibious Force and the wide range of experience to be found among the respondents, it is anticipated that the results of this investigation may have useful application.

Since daily operational maintenance is but one part of the total sphere of maintenance responsibilities shouldered by a commanding officer, the various upkeep facilities available for use are explained as are funds other than POSTAR which help maintain a ship. Finally, some typical strategies employed to get the maximum work accomplished within the limitations of the available monies are described to present the broad framework within which the Commanding Officer maintains his ship "in a state of maximum effectiveness for war service."[1]

To fully understand the problem being studied, one must have a basic knowledge of the important organizational relationships within the Navy, information which is presented along with background material describing the budgetary process. A typical Supplies and Equipage budget cycle is discussed showing its relationship to recent Fleet problems that have arisen due to consistent underfunding.

Besides the questionnaire employed, material for this study was obtained from the Amphibious Force instruction which effects the POSTAR procedures, various Department of the Navy publications, and literature discussing budgeting.

A special note of thanks is extended to the many officers who took the time to fill out and return the questionnaires they received. As one of them commented, "One of the most difficult problems facing a Commanding Officer and his department heads is that of staying ahead of their paper work." This

[1] U. S., Department of the Navy, Navy Regulations, 1948, p. 82.

difficulty is recognized, and the efforts of those who returned their forms is deeply appreciated.

The author also wishes to express appreciation for the assistance given by Mr. C. W. Bacon of the Bureau of Supplies and Accounts and by Mr. H. G. Kahall of the Bureau of Ships, both of whom provided the author with much significant information.

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NAVY ORGANIZATION AND BUDGETING

> In the office of one former director of the Bureau of the Budget, there once hung a chart entitled, "The Tools of Budgeting." Three such tools were portrayed—a crystal ball, some dice, and a pair of scissors.[1]

This chapter describes the budget process which results in the source of shipboard maintenance funds, the Supplies and Equipage portion of the appropriation, "Operation and Maintenance, Navy." The recent levels of Supplies and Equipage funding are discussed along with the consequences for the Fleet. Since any discussion of resource management within the Navy requires a familiarity with naval organization and the command relationships that exist, the chapter begins with a brief description of the dual organization structure within the Naval Establishment. It then leads into budgeting with a sketch of current planning, programming, and budgeting concepts employed in the Department of Defense.

Naval Organization

The Navy organization pattern provides for two distinct chains of command, one for administrative matters and the other for operational command. The former is a permanent organization existing to provide continuity and to insure that maintenance and administration of the ships is carried out effectively. At the top of this structure is the Chief of Naval Operations to whom the

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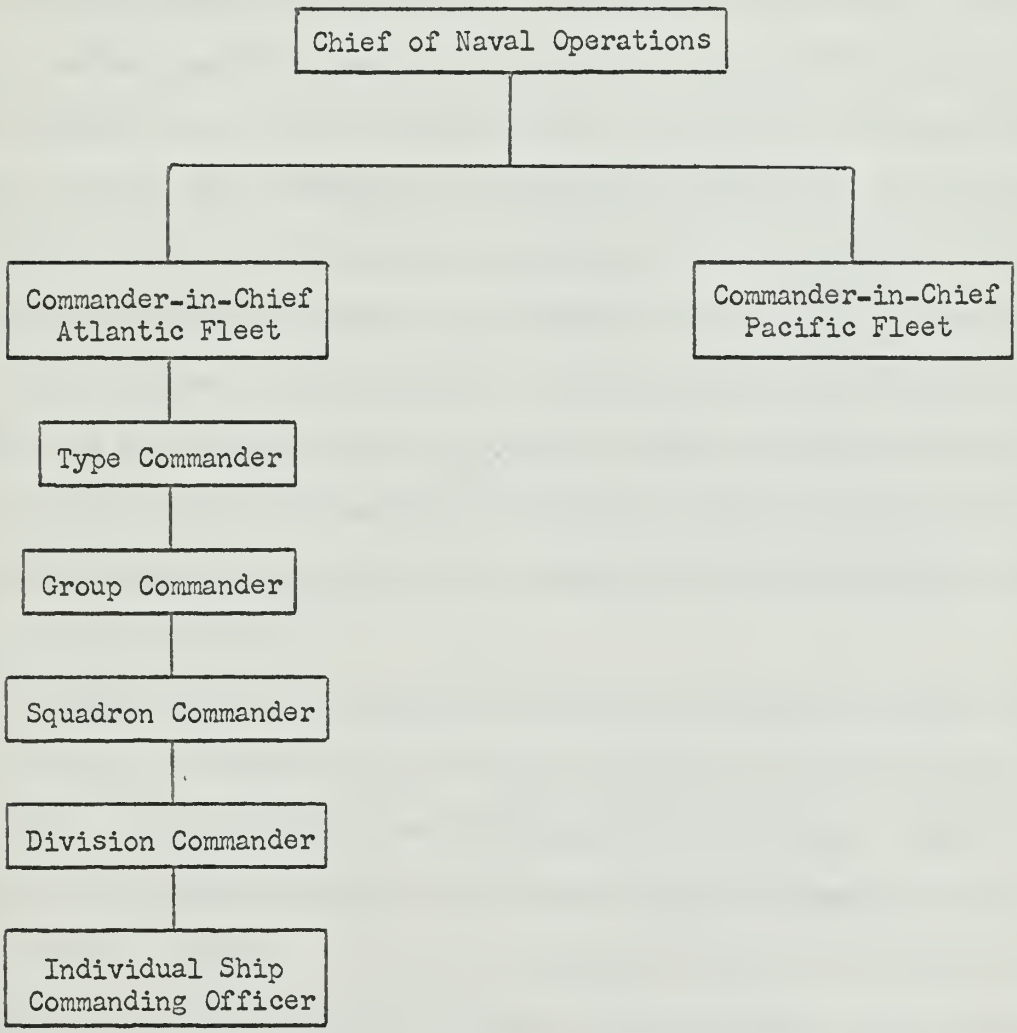
[1] Murray L. Weidenbaum, Federal Budgeting: The Choice of Government Programs (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1964), p. 1.

Commanders-in-Chief of the Atlantic and the Pacific Fleets report for matters of training, logistical support, and administration (Figure 1). Each of these two fleets is a separate entity, but both have substantially identical organisation structures. At the third echelon of command lie the Type Commanders, under whom similar types of ships or units are grouped. The type commands within each of the two fleets are: Amphibious Force, Cruiser-Destroyer Force, Submarine Force, Mine Force, Naval Air Forces, Service Force, Fleet Marine Force, and a Training Command. Each type command is further subdivided into flotillas (or groups as they may be called), squadrons, and divisions, but these three levels serve primarily to coordinate matters and consolidate communication between individual ships and the Type Commander.

Fleet operations are conducted under the second chain of command by Task Force Commanders. When a mission must be performed, an organization is activated for this purpose within the existing Task Fleet which has responsibility for the geographical area involved. The well-known First, Seventh, Second, and Sixth Fleets are the currently existing Task Fleets which carry out the actual operations of the Navy in the Pacific and the Atlantic Ocean areas. The Task Force that is activated for a specific mission has its own hierarchy of command and exists only from the time it is activated until it is de-activated on signal by the force commander. The officers who man the positions in its command structure generally occupy positions in the administrative chain of command as their permanent duty assignments. The Type Commanders concerned designate the ships from their commands that take part in the planned operations. Because of the mission of the Navy and its "on call" nature, the scheduling of ships for operations often gets to be a very fluid proposition and injects one

Figure 1

ADMINISTRATIVE CHAIN OF COMMAND



of the primary sources of difficulty into the Commanding Officer's financial management problems.[1]

In addition to the dual chain of command, the other organization structure that has a bearing on fleet maintenance is that within the Navy Department in Washington (Figure 2). Here, a consumer-producer relationship exists regarding supporting requirements. The Office of the Chief of Naval Operations and the Operating Forces are viewed as consumers of services and material provided by the Under Secretary of the Navy and the Assistant Secretaries of the Navy through their direction of the various bureaus and shore activities.[2] The activities of only two bureaus are significant in the area under discussion, the Bureau of Ships (also referred to as BUSHIPS) and the Bureau of Supplies and Accounts (also referred to as BUSANDA). Among other things, the former is responsible for the repair of ships, amphibious craft, and boats, and the latter bureau is charged with the procurement and issue of supplies and material (less explosives) and with the development of procedures for the performance of supply functions ashore and afloat.[3]

In March, 1966, the Secretary of the Navy announced a proposed reorganization plan that, if instituted, will replace much of the present bureau structure with a Naval Material Command (Figure 3).[4] Basically, BUSHIPS will be replaced by a Ship Systems Command and a Supply Systems Command will take the place of BUSANDA. They will be two of six systems commands which will report to the Secretary of the Navy through the Chief of Naval Material and the Chief of

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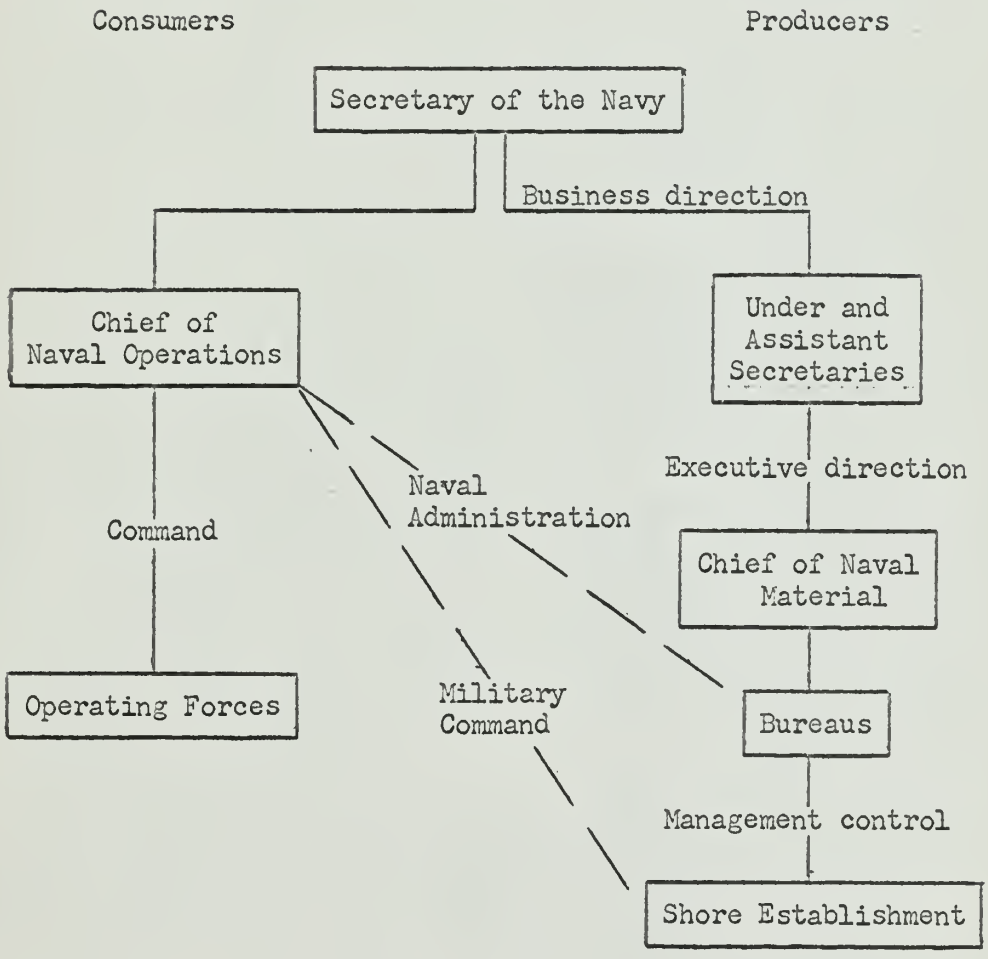
[1]For a more complete discussion of naval organization see U.S., Department of the Navy, Bureau of Naval Personnel, Naval Organization, NAVPERS 16138-D, 1961, p. 219.

[2]Ibid., p. 194. [3]Ibid., p. 203.

[4]Navy Times, March 16, 1966, p. 1.

Figure 2

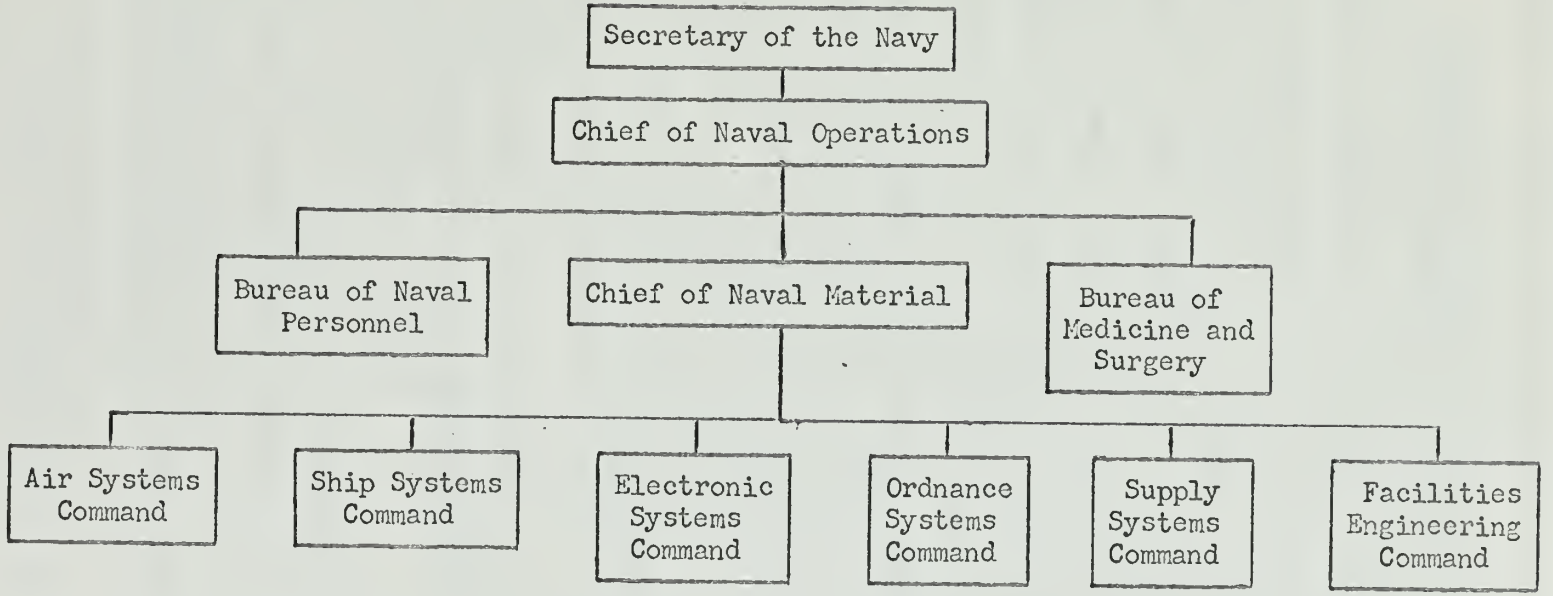
CONSUMER-PRODUCER RELATIONSHIPS[a]



[a]U. S. Department of the Navy, Bureau of Naval Personnel, Naval Orientation, NAVPERS 16138-D, 1961, p. 194, and Navy Times, March 16, 1966, p.3.

Figure 3

PROPOSED ORGANIZATION REVISION[a]



[a]Navy Times, March 16, 1966, p.3.

Naval Operations. At this time it appears that the reorganization will have little, if any, effect upon the topics discussed in this study.[1]

Planning, Programming, and Budgeting

The planning, programming, and budgeting system used in the Department of Defense is the principal management tool with which the Secretary of Defense molds a comprehensive, world-wide plan of action.[2] Objectives are set, programs are mapped out for their accomplishment, and budgets are prepared to finance the approved programs. Before going into detail about budgeting for the Operation and Maintenance, Navy appropriation, a brief discussion of the planning, programming, and budgeting system is presented as background material.

The planning phase begins with the annual preparation of the Joint Strategic Objectives Plan by the Joint Chiefs of Staff. This document contains their recommendations concerning the military forces and military programs that should be supported over the next five to eight years. Each spring the Secretary of Defense reviews the Joint Strategic Objectives Plan and makes his preliminary decisions regarding the forces and programs described. Based upon the "tentative force guidance" that emerges from this review, the services prepare their change proposals to the basic plan of the nation's defense posture, the Five-Year Force Structure and Financial Program.[3]

The Five-Year Force Structure and Financial Program is divided into eight Major Programs which cut across traditional armed service boundaries. The

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[1] Interview with M. R. Rohall, Supervisory Budget Officer, Active Fleet Programs, Comptroller Division of the Bureau of Ships, March 17, 1966.

[2] Charles J. Hitch, Decision-Making for Defense, (Berkeley and Los Angeles, California: University of California Press, 1965), p. 39.

[3] Ibid., p. 31.

programs are: Strategic Retaliatory Forces, Continental Air and Missile Defense Forces, General Purpose Forces, Airlift and Sealift Forces, Reserve and Guard Forces, Research and Development, General Support, and Military Assistance Program.[1] Each program is in turn divided into program elements which are defined as integrated combinations of men, equipment, and installations whose effectiveness can be related to national security objectives.[2] For example, Amphibious Assault Forces is one of many elements which comprises the General Purpose Forces. The force structure document gives program data, a description of the forces involved, tasks and missions, procurement lists, facility lists, and describes all the program elements in physical terms such as missiles and ships as well as in monetary terms. In this way the input (dollars) and output (physical items) for each element is shown.[3] Military forces are projected eight years ahead and all other data, both physical and financial, are projected five years into the future. The military mission structure and the long-range planning horizon employed in the Five Year Force Structure and Financial Plan are the two major characteristics of the Department of Defense planning, programming, and budgeting system.[4]

With the planning and programming accomplished, the final phase in the process consists of translating the approved programs from their mission oriented format in the Five Year Force Structure and Financial Plan into an appropriation structure where they will become the basis for the Navy segment of

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[1] U.S., Department of the Navy, Office of the Director of the Program Information Center, Presentation Notes for DOD Programming System in the Department of the Navy, October, 1965, p. 2c.

[2] Ibid., p. 32. [3] Ibid., p. 3a.

[4] Office of the Director of the Program Information Center, Presentation Notes for DOD Programming System in the Department of the Navy, p. 13.

the Department of Defense budget.[1]

Appropriation Structure

The Constitution provides that "no money shall be drawn from the Treasury, but in consequence of appropriations made by law."[2] The money that is available each year to operate the Fleet comes from the annual appropriation entitled "Operation and Maintenance, Navy." It can be defined as a statutory authority to make payments out of the Treasury for the purpose of operating and maintaining the ships in the Navy's attack, amphibious assault, antisubmarine, anti-air warfare, and Polaris submarine forces.[3] The Operation and Maintenance, Navy appropriation is composed of three levels of sub-categories with the first level consisting of eight major activities. These are: General Expenses, Navy Personnel, Ships and Facilities, Weapons and Facilities, Medical Care, Civil Engineering, Servicewide Supply, Servicewide Operations, and Naval Petroleum Reserves.[4]

The major activity this study is concerned with, Ships and Facilities, is assigned to the Chief of the Bureau of Ships for management. He has in turn sub-divided it into eight budget activities which are: Maintenance and Operation of the Active Fleet, Active Fleet Alterations and Improvement, Technical Support Activities, Polaris, Fuel for Ships, Fleet Support Facilities, Maintenance and

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[1] U.S., Department of the Navy, Office of the Chief of Naval Operations, Navy Programming Manual, Part I, OPNAV 90P-1, 1964, p. 1-2-3.

[2] U.S., Constitution, Art. 1, sec. 9 (7).

[3] U.S., Bureau of the Budget, Appendix to the Budget of the United States Government for the Fiscal Year Ending June 30, 1967 (Washington: U. S. Government Printing Office, 1966), p. 376.

[4] U.S., Department of the Navy, Office of the Comptroller, Budget Digest Fiscal Year 1966, November, 1965, p. 54.

[illegible]

[illegible]

[illegible]

Operation of Reserve Training Vessels, and Departmental Administration.[1]

Finally, the budget activity entitled "Maintenance and Operation of the Active Fleet" is divided into three budget projects. These projects are: Supplies and Equipage, Scheduled Repairs, and Ship Repairs.[2]

In general, it can be said that the Supplies and Equipage money pays for material needed for the Fleet's day-to-day operational maintenance requirements. More specifically, the funds are used for repair parts, consumables, equipage, certain port services, repairs to other vessels (applicable primarily to repair vessels), and the support of Flags and Commands (those officers occupying positions in the administrative and operational chains of command previously described). At the time this study was conducted in Fiscal Year 1966, Supplies and Equipage was allocated $150.4 million out of the Navy's budget of $14.274 billion.

Budget Formulation

> It is essential to know actual as well as theoretical methods of dipping ice cream, as they differ considerably.[3]

Development of the budget in the Navy is largely a matter of bureau responsibility, since each bureau is required to prepare the budget for those activities for which it has management responsibility. In this way financial

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[1] Edward N. McKeon, "Budgeting at the Shipboard Level" (unpublished Master's thesis, School of Government, Business and International Affairs, The George Washington University, 1964), p. 14.

[2] Ibid.

[3] U.S., Department of the Army, Pamphlet 20-325, quoted in Frederick C. Mosher, Program Budgeting: Theory and Practice (New York: American Book--Stratford Press, Inc., 1954), p. 124.

and management responsibility are kept aligned within the organizational pattern.[1] The various bureaus are charged with the tasks of formulating their budgets, justifying the requests at all levels of review, and budget execution. Justification of the various programs which require dollar support is handled by the Office of the Chief of Naval Operations.

The budgeting phase of the Department of Defense planning-programming-budgeting system is theoretically done by breaking down the financial requirements for the program elements contained in the Five Year Force Structure and Financial Plan into the proper appropriation structure categories and then integrating all the parts into a budget. This can be done for any year of the five years covered by the force structure document.[2]

In practice, the bureau budgeting cycle begins in November when the Bureau of Ships calls for the financial requirements (without justification) of the Atlantic and the Pacific Fleets so that program objectives can be prepared by the Bureau.[3] These program objectives are the financial objectives that the Bureau would like to achieve for the budget under preparation. In November of 1965 the call was issued for the amounts of money the two fleet commanders estimated that they would need for the fiscal year 1968. The replies of the fleet commanders are based upon the requests of their type commanders for funds and reflect past usage data, expected force level increases, cost escalation, and the expected tempo of operations.

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[1] U.S., Department of the Navy, Office of the Comptroller, The Budget Process in the Navy, October, 1959, p. 2-12.

[2] Hitch, p. 38.

[3] Unless otherwise noted, information contained in this chapter relating to BUSHIPS budgeting was obtained during the interview with Mr. Rohall of the Bureau of Ships.

The program objectives thus obtained are submitted in January to the Chief of Naval Operations and the Deputy Comptroller who review them and set upper limits on the appropriations. These limits usually involve reducing the submitted figures. The reductions are divided among the bureaus receiving funds from the several appropriations. Within each bureau the cuts are further distributed to the budget activity level where they are typically applied to those large programs which are not as easily defended as others. For example, a reduction in the program objective for the Operation and Maintenance, Navy appropriation would result in the Bureau of Ships absorbing a portion of the cut. Of the activities BUSHIPS must fund, the reserve fleet and the naval reserve training vessels are already being funded at a "bare bones" level and so would probably not be cut further. Of the large programs, fuel funds are difficult to reduce because experience shows that pleas for fuel conservation generally are not effective. In fact, consumption sometimes increases after the request. Overhaul funds and restricted availability funds (which pay for emergency repairs at shipyards) are subject to reduction, but the effects of cuts can often be dramatically portrayed. This leaves funds for alterations to vessels and Supplies and Equipage funds especially susceptible to being decreased. To Bureau claims that under-funding Supplies and Equipage results in consumption being greater than inventory replacement, a condition which causes ships to be unable to maintain their prescribed material allowance levels, budget examiners typically respond with, "How large are your allowance deficiencies, and how significant are they?" At the present time the Navy cannot answer these questions, and the Supplies and Equipage budget frequently is reduced.

Without giving the fleets any indication of the final program objectives, the Bureau of Ships requests of them in February justification for the

funds requested in November. This information is used later by the Bureau to defend the budget that is formulated.

During April and May, the Bureau's budget personnel engage in preparation of Program Change Proposals for those programs requiring significant funding increases (or decreases). The Program Change Proposals are due in June and are extensively reviewed prior to submission to the Secretary of Defense. At some times the decisions dealing with individual Program Change Proposals are made fairly soon after the June deadline while at other times the decisions are delayed until November. Until a final decision is made by the Secretary, however, budget officers must prepare budgets based on previously approved funding levels as well as on the proposed levels.

A consideration of budget preparation at the bureau level, as it is actually done in comparison with the way it theoretically relates to the Five Year Force Structure and Financial Plan, might bring to mind the question "Which comes first, the chicken or the egg?" Is the annual Navy budget for Operation and Maintenance, Navy a summation of the Operation and Maintenance financial requirements for all the program elements to which the Navy contributes, or is the force structure plan an outcome of the requests for funds of the operating units as modified within the Navy to reflect how much money it expects to receive? The answer probably lies somewhere between these two extremes and perhaps closer to the latter than to the former possibility.

Review and Authorization

The first step in the budget review process that takes place outside the Bureau of Ships begins in August when the Navy Comptroller examines the budget. If he makes cuts in the budget, the reasons for the cuts are presented

to the Bureau which may then take its case to the Secretary of the Navy if it feels strongly that the cut should be restored. The Secretary has the final responsibility for the Navy's budget, and in any given year his objective will probably fall somewhere along a broad spectrum of choices. These range from determining the amount of money he feels is necessary to fulfill the Navy's program responsibilities to that of getting the best possible naval program within the assigned budget limitations. After he has made his decisions, the budget must undergo the two final steps in the Executive Department's review process. Due to the size and complexity of the Defense budget, the reviews of the Secretary of Defense and the Bureau of the Budget are combined into one which occurs in early October. The Defense Secretary is concerned with getting the best defense package within his assigned budget limitation while the Bureau of the Budget aims to get the best budget for the government within the framework of the Administration's fiscal policy and program goals. At whatever level considered, the review process is one of "boiling down" the budget requests in order to achieve the best possible package with the funds likely to be granted by the Congress.[1]

The final act in the review procedure takes place on Capitol Hill when the President's budget is presented to Congress. Work commences in the House of Representatives where, by custom, all appropriation bills originate. The House Appropriation Committee delegates the military portion of the budget to the Subcommittee on Department of Defense Appropriations which conducts detailed hearings on the budget. The committee members concentrate their attention on the items which represent the largest increases from the previous budget and usually, though not always, adopt a position of guarding the Treasury. As Aaron Wildavsky

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[1]Office of the Comptroller, The Budget Process in the Navy, p. 4-3.

[illegible]

points out:

> Guardianship (of the Treasury) provides the Congressmen with a stance that supplies reasonably clear instructions--cut the estimates--while keeping the area within which they must focus their attention--the largest increases--manageable in terms of their limited time and ability to calculate.[1]

When the subcommittee has completed its work, the appropriation bill is presented to the Appropriations Committee from which it goes to a vote on the floor of the House. Because of the tremendous workload of Congress, legislation is parceled out to committees and subcommittees whose members examine it in detail and whose recommendations are usually accepted.

The Senate receives the House version of the appropriation bill and conducts its own hearings through its Subcommittee on Department of Defense Appropriations, comprised of members of the Senate Appropriations Committee. The emphasis of the Senate review is on the cuts made by the House.

> A member of the Senate Appropriations Committee is likely to conceive his proper role as the responsible legislator who sees to it that the irrepressible lower House does not do too much damage either to constituency or national interests.[2]

Many of the reductions made by the House are restored, at least in part, by Senate action, and a joint committee is established including members from both branches of Congress. The final mark-up of the bill that comes from this committee is usually accepted and sent to the President for signature.[3] Arthur Smithies has briefly summarized Congressional budget action as follows:

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[1] Aaron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown, and Co., 1964), p. 161.

[2] Ibid, p. 51.

[3] An excellent account of the entire federal budget cycle is presented by David J. and Attiat F. Ott, Federal Budget Policy (Washington: The Brookings Institution, 1965), Chapter 3.

> In terms of aggregate figures, the Congress makes small rather than large changes in the President's figures. A bona fide cut in the President's appropriation requests of as much as 5 per cent, even by a hostile Congress, is the exception rather than the rule. The normal pattern of Congressional action is for the House to make a substantial cut in the budget total, for the Senate to restore a large part of the cut, and for the conference to reach a compromise that is not far from the President's requests.[1]

Budget Execution

The execution phase of the budget cycle is thought of as beginning when the President signs the appropriation bill into law. Although Congress gives to the Navy authority to obligate the appropriated funds, the Bureau of the Budget as the representative of the President restricts the amount of obligations that may be incurred, usually on a quarterly basis. The Chief of the Bureau of Ships must submit an apportionment request to the Bureau of the Budget through a chain of review similar to that which reviews budget requests, and like the budget request the one for apportionment is subject to being reduced. The actual submission of the apportionment request takes place in the latter part of May so that if the authorization of the desired appropriation has not taken place by June 30, the Bureau of the Budget can quickly act upon the continuing resolution that Congress generally passes just before the fiscal year ends. The continuing resolution allows programs already underway to be funded at the previous rate but does not allow new programs to obligate funds. This early action on apportionments permits a smooth transition from one fiscal year to the next. Once Congress completes its action on the budget, the Bureau of the Budget

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[1] Arthur Smithies, The Budgetary Process in the United States (New York: McGraw-Hill Book Co., 1955) p. 140.

[illegible]

[illegible]

[illegible]

compensates for the new spending totals by adjusting the funds apportioned throughout the remainder of the fiscal year.[1] The apportionment process is used as an instrument of fiscal policy to control the rate of government spending, as a method of establishing reserves and effecting savings, and as a way to insure the development of up-to-date financial plans reflecting the latest program changes.[2]

When the apportionment has been granted to the Bureau of Ships via the Secretary of the Defense and the Secretary of the Navy, allotments are then granted to the fleet commanders who in turn make sub-allotments to their type commanders. Here the chain ends, and rather than being granted allotments, ships receive the authority to incur obligations for needed material by citing their type commander's allotment subject to limits set according to the type of ship involved. The responsibilities of the various echelons in the chain of command for proper execution of the budget are these:

Fleet Commander - review and revision as necessary of the annual financial plan throughout the year as well as improvement of the methods used for preparing future plans.

Type Commander - financial management of ships to include planning, administration of funds, analysis of obligations and expenditures, cost accounting, and performance reporting.

Commanding Officer - the effective and economical use of funds and material within his command.[3]

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[1] Interview with P. Quinn, Comptroller Division of the Bureau of Ships, March 18, 1966.

[2] Office of the Comptroller, The Budget Process in the Navy, p. 6-3.

[3] U.S., Department of the Navy, Office of the Comptroller, Navy Comptroller Manual, Volume 6, NAVEXOS P-1000-8, January, 1961, p. 1-6.

Effects of Recent Supplies and Equipage Funding Levels

The real significance of the budgetary process in relation to this study is its effect upon the maintenance of the Operating Forces of the Navy. The appropriation Operation and Maintenance, Navy has frequently fared rather poorly at the various review levels undergone prior to the President's signing of the bill (Figure 4). As stated in a recent BUSHIPS notice:

> The O & MN budget requests are susceptible to across-the-board arbitrary reductions, particularly in Supplies and Equipage funds, due to the non-availability of adequate performance cost data in the detail required by the Office of the Secretary of Defense and other budget review levels.[1]

The heart of the problem is that the Navy currently does not have detailed information relating to consumption of repair parts, consumables, and equipage; actual inventory levels are not known; and the composition of allowance list deficiencies[2] that are known to exist is not known on a line-item basis. Estimates of inventory deficiencies therefore carry little weight with budget examiners because they are only estimates and they give no indication of what items are deficient nor how critical the shortages are.[3] Some idea of the magnitude of the problem is indicated by inventory deficiency estimates for 1963 of $25 million and $22 million in the Atlantic and Pacific Fleets, respectively.[4]

One of the quantifiable effects of recent Supplies and Equipage funding

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[1] U.S., Department of the Navy, Bureau of Ships, BUSHIPS Notice 7303 of 1 October, 1965, p. 2.

[2] Allowance list items are those items which ships are required to stock in prescribed quantities.

[3] Interview with M. R. Rohall, Bureau of Ships.

[4] "Point Paper on Fleet Material Problems" (Bureau of Supplies and Accounts, 1964), p. 1. (Mimeographed.)

Figure 4

SUPPLIES AND EQUIPAGE BUDGET SUMMARY, 1962-1967[a]

(1) Fiscal Year	(2) Fleet Reqmt (in millions)	(3) BUSHIPS Mark-up	(4) NAVY Mark-up	(5) CONGRESS Mark-up	(6) Col. (5) as % of Col. (2)
62	$122.3	$108.7	$ 94.0	$100.0	82
63	133.7	113.2	118.2	110.1	82
64	159.3	142.8	140.3	125.7	79
65	161.8	147.4	127.3	130.5*	81
66**	187.3	163.8	163.8	150.4*	80
67**	228.1	176.7	181.8		

* Includes adjustments for Southeast Asia operations.

** Data added to original document by owner.

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[a]"Point Paper Regarding Fleet Supplies and Equipage Funding" (Bureau of Supplies and Accounts, March, 1964). (Mimeographed.)

levels is the number of equipment breakdowns for which repair is delayed by the non-availability of repair parts. Breakdowns to equipment which impair a ship's operational capability are reported under the Casualty Reporting System (CASREP). An unpublished paper prepared for the Bureau of Supplies and Accounts indicates fairly recent trends of CASREPs:

> Present interest in the level of Supplies and Equipage funding stems from Fleet statements that the increase in CASREPs is significantly attributable to inadequacy of Supplies and Equipage funding in recent years. CASREPs have increased from 2,667 in 1959 to 6,973 in 1963. For calendar years '62 and '63 supply items were contributors in 90% of the CASREP cases, and allowance list items in 25% of the cases.[1]

A comprehensive summary of problems associated with the availability of Supplies and Equipage money was one of the outcomes of a conference held in 1964. The following findings were reported:

1. There are major shortages of repair parts on board ships. Although directives from the Secretary of Defense and the Chief of Naval Operations require having allowed materials on board, funds are not available to comply with these directives.

2. Fleet allowance deficiencies grow larger each year.

3. Fleet funding requirements are being reduced by the Navy prior to higher review.

4. CASREPs are increasing. About 90% are due to parts not on board and not on allowance, or not on board but on allowance.[2]

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[1] "Point Paper Regarding Fleet Supplies and Equipage Funding" (Bureau of Supplies and Accounts, March, 1964). (Mimeographed.)

[2] "Highlights of NAVSHIPS S&E Funding Conference of 19 August, 1964 (NAS North Island)", (Bureau of Supplies and Accounts, August, 1964). (Mimeographed.)

In addition to emphasizing the need for more funds to correct the problem areas described above, the conferees listed five additional factors which they felt would contribute to the need for higher levels of funding in the future. These are:

1. More complex systems are being installed in ships.

2. Price levels are generally increasing.

3. Lengthened overhaul cycles are causing demands for more Supplies and Equipage dollars from repair ships in order to finance their work.

4. Ships of the Fleet, many of which were built during World War II, continue to grow old.

5. Reductions of allowed shipboard inventory levels which occur during deployments accumulate due to insufficient Supplies and Equipage funds.[1]

It is apparent that there is recognition within the Navy of the basic problem with which it is confronted--that of inadequate funding levels for Supplies and Equipage. There is also recognition of the symptoms that are generated in the Fleet from this shortcoming. Finally, it is known what information must be gathered to correct the problem. The question is, "What is being done to correct it?"

A new program called the Standard Navy Maintenance and Material Management Program is currently being phased into operation and is expected to reveal for the first time the actual operating costs of various shipboard systems. Besides system costs, the Maintenance Data Collection portion of the program will provide planners with a better analysis of spending for repair parts, consumables, and equipage. Until the program is completely operational, interim information-

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[1] Ibid.

reporting procedures have been instituted that will assist in the preparation of budgets through fiscal year 1968.[1] A revision to the interim reporting procedures has been prepared that is expected to be effected in July, 1966. At this time the Bureau of Ships anticipates receiving data on obligations, consumption, and allowance list deficiencies arranged into the categories of equipage, consumables, and repair parts for each ship in the Navy. Budget officers in the Bureau anticipate that this information will finally enable them to justify their requests for Supplies and Equipage funds.[2]

Summary

The Navy's command structure is organized along two lines: one for administrative control and the other for operational control. Within the Navy Department a producer-consumer relationship exists wherein the various bureaus, under the guidance of the Assistant Secretaries of the Navy and the Chief of Naval Material, provide logistical services to the Operating Forces. As part of their producer role, the bureaus are responsible for budget preparation, justification, and execution for those programs contained in the Five-Year Force Structure and Financial Plan which are under their management control. Supplies and Equipage budgets are formulated by the Bureau of Ships based upon data obtained from the fleet commanders who in turn get information from their type commanders. After undergoing various reviews, the budget request results in an appropriation act that averages about 90% of the original estimate of requirements submitted by the fleet commanders. The appropriation is apportioned to BUSHIPS on a quarterly basis by the Bureau of the Budget via the Secretary of

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[1] U.S., Department of the Navy, Office of the Chief of Naval Operations, OPNAV Instruction 7330.2, 3 March, 1965, p. 2.

[2] Interview with W. B. Rohall, Bureau of Ships.

Defense and the Secretary of the Navy. PUSHIPS then grants allotments to the fleet commanders who grant sub-allotments to the type commanders. When necessary, individual ships requisition material and cite their type commander's allotment for payment.

The large cuts that take place in the Supplies and Equipage budget before it is approved stem primarily from the difficulty involved trying to justify requests for funds. The Navy does not have good information regarding the consumption of materials, the status of fleet inventory levels, or the significance of these levels. With the Fleet unable to get sufficient funds, allowance list deficiencies grow larger each year, and the number of equipment breakdowns for which repair is delayed due to the non-availability of spare parts increases. Measures have been taken to get better budget justification data, and it is anticipated that improved reporting requirements will further assist budget officers to support their requests for Supplies and Equipage funds.

CHAPTER II

MAINTENANCE FUNDS, FACILITIES, AND STRATEGIES

Since the Navy's organization and its funding procedures as they apply to the topic area of fleet maintenance have been discussed, it is now appropriate to look at the facilities and methods available to the individual Commanding Officer as he seeks to discharge his responsibility for maintaining his command in a state of maximum effectiveness for war service. The discussion will point out the facilities, funds, and strategies used by commanders to reach and remain at the desired state of readiness.[1]

Facilities

The basic maintenance resource available to a commanding officer consists of the personnel attached to the ship. The ship's force, as the crew is referred to, is the first to handle any problems that arise. Commanding officers usually like to establish a record of self-sufficiency and will not go outside the command for repair work if ship's force personnel can possibly accomplish the task. This policy is a requirement set by higher levels as well. "Self-maintenance shall be developed through careful planning on the part of individual ships, and critical study by the responsible commanders, to the end that the time required for overhaul as well as the expense thereof shall be reduced to a

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[1] Unless otherwise footnoted, the material presented in this chapter is based on the author's shipboard observations as a division officer and department head.

minimum."[1] Naturally, the ship's force also inherits the housekeeping tasks of cleaning and preservation.

If it is decided that a repair job is beyond the capability of the crew, the first alternative considered is a repair ship. Jobs are assigned to repair ships for one or both of two possible reasons: (1) insufficient technical knowledge or skill on the part of the requesting ship's personnel, or (2) non-availability of equipment required for the job on the requesting ship. Consisting essentially of a floating group of shops--metal shops, wood shops, optical shops, boiler shops, etc.--repair ships are capable of taking on a great many types of repair work. They may respond to work requests by accepting the entire job, accepting only part of it, providing technical assistance to members of the requesting ship's personnel, or loaning the specialized tools required to perform the tasks. Ships are scheduled for availabilities four or five times per year, during which time the ship is assigned to a repair ship for a two or three week period. At these times all jobs beyond the capability of the ship's force are to be completed if possible. Besides doing work for ships with availabilities, repair ships will usually accept jobs on equipment that can be left with them and repaired as time becomes available.

The final source of maintenance assistance is the shipyard, both naval and private. A job that is beyond the capability of a repair ship may be held for accomplishment during the ship's next regularly scheduled overhaul or, if it has a serious enough effect on readiness, a shipyard will be assigned to accomplish the task as soon as possible. Ships are granted shipyard overhauls approximately every two or three years, depending upon the type of ship and the

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[1]U.S., Department of the Navy, Atlantic Fleet Regulations, 1958, CINCLANTFLT Instruction 3400.2A, p. 4-1.

availability of funds. Overhaul schedules are prepared by the type commander and reviewed by the fleet commander before being submitted to the Chief of Naval Operations for approval.[1]

Of the available facilities for maintenance and upkeep, it must not be forgotten that the one most often used by the Commanding Officer is that of his ship's personnel. Simply keeping a ship clean, rust free, and in good working order is a constant job that requires much of the time not devoted to operations. Ships are assigned upkeep periods in port, and one of the principal tasks performed is that of ship preservation.

Funds

A ship's primary source of maintenance funds is the type commander, who provides money to be used for purchasing parts and consumable supplies. In the Atlantic Fleet's Amphibious Force (also known as PHIBLANT), each type of ship is given an Annual Planning Figure (APF), an estimate of the funds that should be required by a ship of that type to purchase repair parts and consumable items throughout a fiscal year. The APF method went into effect July 1, 1965, and the sums granted to the various types of ships represent the average figure used for all ships of the same type over the preceding three fiscal years. The funds available to purchase equipage needed to fill individual ship deficiencies depend in part upon how much APF money is spent. A major advantage of this system is that an annual sum can be given to commanding officers for planning and use over the entire fiscal year. It replaces a system whereby quarterly funding limits were granted to individual ships which could only be exceeded upon permission from the type commander, who would then grant the ship more money or

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[1] Ibid., p. 4-7.

allow it to spend some of its funds from the next quarter.

Although most repair parts are paid for by the ship's APF, there are a number of parts funded by the Appropriation Purchases Account which are "free issue" to a ship. These APA parts are high cost and/or low usage rate items and frequently carry price tags that could severely strain a ship's budget. A second source of "free" repair parts is available during the supply overhaul which accompanies each regular shipyard overhaul. At the beginning of the yard period, all supply storerooms are emptied, their contents inventoried and checked against allowance lists, and deficient items placed on order. The type commander pays for this material and will often establish an upper limit on the funds he will provide, but one of the objectives of the supply overhaul is to have each ship complete its yard period with a full stock of the items on its allowance lists.[1]

Material used in connection with work done by repair ships is not generally charged to the ship for which the work was done, and this procedure is a very important source of maintenance funds for a commanding officer. However, repair ships will sometimes pass material costs on to their customers, depending upon how tight their own financial situation is. They, too, receive Supplies and Equipage funds which they use to finance repairs to other vessels.

The final source of maintenance funds is available to ships through shipyard overhauls, which are also funded by the Operation and Maintenance, Navy appropriation. The type commander decides how much of the allocated overhaul money will be spent for each ship in overhaul, and those jobs that can be funded are approved.

From the sources of maintenance funds available to a commanding officer,

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[1] Interview with LTJG R. F. Kleinfeldt, USN, Force Supply Section, COMPHIBLANT Staff, March 29, 1966.

[illegible]

[illegible]

[illegible]

attention is shifted to the common strategies employed to utilize available maintenance resources. The use of ship's force personnel has already been described, leaving strategies associated with repair ship availabilities and shipyard overhauls still to be examined.

Strategies

Although it is a matter of pride for the crew to accomplish repairs whenever possible, department heads and commanding officers are not above trying to get repair ships to approve jobs mainly for the sake of saving money, particularly where large material expenses are anticipated. While they cannot get jobs approved that are obvious attempts to get free goods, those jobs which entail work that can be done easier or better by repair ship personnel than by ship's force are often submitted for approval. However, all work requests must be approved by the division and squadron commanders and a representative of the type commander before a repair ship will consider them. Since the repair ship Commanding Officer also has veto power over work requests, it is not easy to get a job approved without sound justification.

The financial limitations that accompany a shipyard overhaul are usually sufficient to insure that only valid jobs are submitted for approval, although the same screening procedure previously described applies to work requests submitted for shipyard completion. Since personnel concerned realize that it will probably be more than two years before the ship in question returns for another overhaul, there is considerable effort expended to make certain that available money is employed as effectively as possible. All work requests are carefully screened to eliminate those parts which can be accomplished by ship's force. Priority lists are then prepared, and representatives from the ship, the type

commander, and the shipyard meet to select those jobs for accomplishment that will result in the ship receiving a good overhaul. As the period in the shipyard passes, any savings that accrue are used to finance additional work, so it is to the advantage of the ship's personnel to assist the yard workers in order to reduce costs.

The final area where strategy may be employed by a commanding officer concerns his on-board inventory of material. One of the major problems the Fleet has had for the past few years is not having sufficient funds at the shipboard level to re-stock supplies and repair parts as they are consumed.[1] If he so chooses as a scheduled overhaul draws near, the Commanding Officer may instruct his Supply Officer not to re-order material issued from the storerooms and hence increase the amount of the obligations that will be met by the type commander during the supply overhaul. However, this procedure has elements of risk in that overhaul dates are anything but firm, and the ship may have to continue operating longer than was expected with inadequate stocks of supplies aboard.

Summary

Commanding officers have three facilities available to them for the maintenance of their ships. The one most often used is the ship's own resources of personnel and installed equipment. Outside help is available from repair ships and shipyards. Maintenance funds are in the form of the ship's portion of the type commander's allotment, repair ship funds, overhaul money, and the two categories of "free" spare parts--APA parts and those purchased during the supply overhaul. While there are methods for shifting the purchase of material to repair

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[1] "Highlights of BUSHIPS S&A Funding Conference of 19 August, 1964, (NAS North Island)," (Bureau of Supplies and Accounts, August, 1964).

ships, shipyards, and the type commander, they are difficult to successfully employ and may involve other "costs" that the commanding officer may not wish to incur.

CHAPTER III

SHIPBOARD FUNDING PROCEDURES

The budgetary battles conducted in Washington to obtain Supplies and Equipage funds are far removed from the daily tasks of the officers who man the ships of the Fleet. To most of these men, the financial horizon rarely extends beyond the location of their type commander, upon whom they rely for funds. Financial management as seen by these officers will be examined in this chapter. Since the current funding system, designated POSTAR, has been in effect for only a few months, the old OPTAR method will be explained in order to illustrate the previous system employed by the officers. This explanation will be followed by a description of POSTAR procedures aimed at clarifying the questionnaire responses analyzed in the next chapter.

OPTAR Procedures

Prior to July of 1965, each ship in the Amphibious Force was given an Operating Target of funds at the beginning of each quarter of the fiscal year that would be available for use during that quarter. This account was a fraction of the Type Commander's[1] allotment against which the ship was to charge the costs of obligations incurred for the purchase of repair parts, consumables, and equipage. Ships were not permitted to exceed their quarterly OPTAR; although if

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[1]The Navy's acronym for the Commander, Amphibious Force, U. S. Atlantic Fleet is COMPHIBLANT. It will be used on occasion throughout this study.

costly material purchases or other unusual expenses caused the ship to run short of money, the Commanding Officer could request an augmentation of additional funds to cover the required obligations. Another approach was to request an advance of funds from the expected OPTAR for the next quarter. Each ship was required to obligate 50% of its OPTAR in the first month of the quarter, 25% during the second month, and 25% during the final month.[1] Monthly reports were submitted to COMPHIBLANT summarizing obligations and expenditures, and aboard ship the Supply Officer was required to submit a monthly budget report to the Commanding Officer. Although neither content nor format of this report was specified by COMPHIBLANT, it was presumably geared toward the use of departmental budgets.[2] The quarterly OPTAR system was quite rigid and provided little latitude for the Commanding Officer to respond to the vagaries of the operating schedule and the accompanying patterns of repair parts and consumable supplies usage.

POSTAR Procedures

A new method of granting OPTAR funds was instituted in the Amphibious Force on July 1, 1965, and at that time shipboard budgeting became a requirement for all but the smallest ships. The primary purpose of this change was to provide the Force with a more manageable system, one responsive to changing conditions.[3]

With the enactment of the POSTAR system, the ground rules were changed

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[1] U.S., Department of the Navy, COMPHIBLANT Instruction 7303.2J, 23 June, 1964, cited by W. B. Lovell, "Financial Management Practices of Atlantic Fleet Commanders" (unpublished Master's dissertation, School of Government, Business, and International Affairs, The George Washington University, 1965), p. 41.

[2] W. B. Lovell, "Financial Management Practices . . . ," p. 40.

[3] U. S., Department of the Navy, COMPHIBLANT Instruction 7303.2K, 28 June, 1965, p. (3)-1.

considerably.[1] Ships are now assigned Annual Planning Figures according to ship type, which serve as ceilings on spending (Figure 5). Ships are not required to purchase their own equipage with POSTAR funds. This category of material is acquired as a result of the submission of an annual report by each ship listing required new items of equipage to be purchased by COMPHIBLANT according to the availability of funds. The funds available for equipage are related to the total amount of money spent for other material by all ships in the Force. In addition to the purchase of repair parts and consumables, ships must support the following with their POSTAR funds: embarked staffs (of officers occupying positions in the administrative chain of command), embarked boats and landing craft, boat repair parts allowance lists, routine repairs to ship's vehicles, charter and hire expenditures not covered by District/Area allotments, and host-tenant agreements with the Naval Amphibious Base at Little Creek, Virginia.

Each ship is expected by the Type Commander to formulate a budget or financial plan for the year and then purchase materials as they are needed. A quarterly division of funds is recommended by COMPHIBLANT but is not required. While the quarterly figure may be exceeded, ships are cautioned that the budget for the following quarter should be correspondingly reduced. The Annual Planning Figure is not a blank check, nor is it an amount which must be spent during the year. If a commanding officer believes he is justified in requesting more money, he may request an augmentation of funds, stating in his request why the funds are needed.

Ships are required to submit monthly reports summarizing obligations and expenditures for repair parts and consumables, and from these reports stem

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[1] Material used in this discussion of the POSTAR system has been taken from COMPHIBLANT Instruction 7303.2K, Enclosures (3), (4), and (8).

Figure 5

AMPHIBIOUS FORCE ANNUAL PLANNING FIGURES[a]

Ship Type	Annual Planning Figure
AGC (Amphibious Command Ship)	$152,000
AKA (Attack Cargo Ship)	85,000
APA (Attack Transport Ship)	130,000
APD (High Speed Transport)	45,000
LPD (Amphibious Transport Dock)	85,000
LPH 3, 7, 9 (Amphibious Assault Ship)	180,000
LPH 4 (Amphibious Assault Ship)	325,000
LSD (Landing Ship Dock)	80,000
LST (542 class) (Landing Ship Tank)	32,000
LST (1156 and 1173 classes) (Landing Ship Tank)	60,000

Example of how Annual Planning Figure was derived:

Type Ship	
APD (High Speed Transport)	
Average funds granted each of three prior fiscal years:	$50,000
Less 10% equipage replacement by CPL	- 5,000
Annual Planning Figure	45,000
Available per quarter:	11,250
Available per month:	3,750

[a]Ibid., Appendix 1 to Enclosure (3), p. A-1.

the two primary control features of the system at the Force level. First, monthly listings are distributed throughout the Force showing each ship's planning figure, obligations for the report month, cumulative obligations, cumulative expenditures, and any pertinent remarks concerning obligation rates that the Type Commander may want to add. Each commanding officer can then get an idea of how the financial management of his ship compares with that of similar ships. According to COMFAIRLANT's POSTAR instruction, "the Commanding Officer of each ship/unit should be vitally concerned with how his ship/unit stands relative to others of their type."[1] The second control feature is less subtle. "Those ships or units who violate the spirit of this program will be reverted to quarterly OPTARs and receive only the difference between what had been spent to date and their Annual Planning Figure. In addition augmentations and advances will not be granted."[2]

To generate additional funds for the Force and to stimulate the turn-in of unnecessary creditable material, ships are encouraged to return such items to ashore supply facilities and note the dollar value on their monthly budget report to COMFAIRLANT. The credit generated by such turn-ins may be added to the Annual Planning Figure of the ship concerned at the discretion of the Type Commander.

Shipboard financial planning is discussed in general terms in the POSTAR instructions, and a great deal of discretion is granted to each Commanding Officer. The recommended procedure is for the Supply Officer to suggest to him a breakdown of the Annual Planning Figure for the categories of repair parts, consumables, and contingency fund. Once the division among categories has been determined, a meeting including all department heads to examine their consumable requirements and allocate the consumable funds among departments should be held.

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[1] Ibid., p. (3)-3. [2] Ibid., p. (3)-2.

Each Friday the Supply Officer is required to submit to the Commanding Officer a status report of the ship's budget and the departmental budgets. A sample of this report is shown in Figure 6. Departmental budgeting is required by COMPHIBLANT on all ships with an attached Supply Corps officer and "is optional but highly recommended" on ships without such an officer.[1] Through the use of departmental budgets the Type Commander hopes to promote cost-consciousness.

One of the primary advantages of POSTAR is the flexibility it provides a commanding officer by supplying funds for use throughout the year. Because an extraordinarily high obligation rate is usually experienced prior to a deployment and a low rate occurs upon returning to the United States, the POSTAR system provides a better opportunity for ships to adjust to their operation schedules. Furthermore, it takes a step toward uniting the responsibility for spending funds and being accountable for them at the department head level.

Summary

The POSTAR system of daily maintenance fund management provides the Commanding Officer with an Annual Planning Figure which he is to use to fund his repair parts and consumables requirements for the entire fiscal year. With such funding no longer on a rigid quarterly basis, he has considerably greater flexibility with which to accomodate unusual periods of obligations. He is free to buy material as it is needed rather than to delay purchases until the next quarter, as was often the case previously. The system does not, however, provide him with unlimited funds, and he is expected to compare his obligations with those of his counterparts. Failure to adequately provide for funds throughout the year can result in his ship being returned to a quarterly OPTAR basis

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[1] Ibid., p. (8)-1.

[illegible]

WEEKLY BUDGET REPORT FORMAT[a]

8 July, 1965

From: Supply Officer
To: Commanding Officer
Via: Executive Officer

Subj: Departmental Budget for Period _____ to _____.

ANNUAL PLANNING FIGURE $100,000

1. Departmental Budget: (consumables only)

DEPARTMENT	BUD AMT	BALANCE	USED THIS PERIOD	BALANCE
DECK	$25,000	$25,000	$ 800	$24,200
ENGINEERING	15,000	15,000	600	14,400
OPERATIONS	10,000	10,000	200	9,800
SUPPLY	10,000	10,000	300	9,700
TOTAL	$60,000	$60,000	$1,900[b]	$58,100[b]

2. Ship's Budget:

CATEGORY	BUD AMT	BALANCE	USED THIS YEAR	BALANCE
Repair Parts	$ 30,000	$ 30,000	$ 350	$29,650
Consumables	60,000	60,000	2,600[b]	57,400
Contingency	10,000	10,000	-0-	10,000
TOTAL	$100,000	$100,000	$2,950	$97,050

AL E. GATOR

Copy to:
DECK
OPERATIONS
ENGINEERING
FILE

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[a] Ibid., Appendix 1 to Enclosure (8), p. C-1.

[b] Not normally the same. Issues from stock are included in Section 1 and only stock reorders in Section 2.

utilizing his remaining Annual Planning Figure balance. Departmental budgeting is required for most ships, but considerable freedom is granted to the Commanding Officer to budget as he sees fit.

CHAPTER IV

BUDGETING ABOARD SHIP

Previous chapters have presented the framework within which the Commanding Officer of a ship operates in his efforts to keep his ship combat-ready. Following an examination of naval organization, budgeting, and maintenance procedures, attention is now directed to management of POSTAR funds at the shipboard level.

Questionnaire Methodology

In order to determine financial management practices employed in the Amphibious Force of the Atlantic Fleet, two questionnaires were prepared and distributed to each ship in the Force. One, addressed to the Commanding Officer, dealt with budgetary matters pertaining to the ship as a whole and to departmental budgets. The other form was intended for department heads and concerned only departmental matters. A questionnaire was included for each of the four principal department heads on a typical ship. Both formats employed a preponderance of open-ended inquiries designed to cast light on two principal areas: (1) how is budgeting performed on board ship, and (2) what is the opinion held by members of the operating forces of the POSTAR system?

The first of these questions was further sub-divided into four parts:

1. Resource allocation. How have ship's budgets been allocated by categories (repair parts, consumables, and contingency fund) and by department?

2. Budget preparation. What factors have been taken into account

during preparation of the budget?

3. Execution. How has the rate of obligation been planned and controlled? As a corollary to this question, an inquiry was made regarding waste prevention.

4. Review. What has been the frequency of budget review?

The opinion of officers regarding the POSTAR system was solicited by inquiring whether it enabled them to better manage their financial resources than the quarterly OPTAR system previously used and by requesting respondents to list the two factors which were the greatest obstacles to more effective management of POSTAR funds. Copies of both questionnaires have been included as Appendices B and C.

A total of 285 questionnaires was mailed to the 57 ships in the Amphibious Force. Prior to the cut-off date required in order to prepare this report, replies were received from 17 ships.[1] Of the Commanding Officers queried, 30% responded, whereas 25% of the department heads returned their forms. The response by ship-type was quite broad with the only types not represented in the tabulation being the High Speed Transport (APD) and the Attack Cargo Ship (AKA). The Annual Planning Figure of the reporting ships ranged from $32,000 to $325,000.

Commanding Officer Replies

Examining first the ship's budget, an average budget alloted 36% of the funds for repair parts, but the mode was close to 40%. Consumables averaged 50%, and a contingency fund of 11% was established. Commanding Officers did not adhere to the percentage breakdown used for illustrative purposes in COMPHIBLANT's POSTAR

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[1] Complete sets of questionnaires were subsequently received from eleven additional ships. No significant differences from earlier responses were apparent.

instruction. By far the most popular criterion used as the basis for fund allocation was usage data obtained from past experience. Other factors taken into consideration were the ship's anticipated operating schedule, personal experience, and stock levels of consumables and repair parts. Stock levels appeared to play a part in the decision if the ship had recently been through a yard overhaul and had not received sufficient funds to emerge with a full inventory.

Most ships had in effect a planned rate of obligation for their Annual Planning Figure. Basically, the APF was sub-divided into quarters with either the size of each quarterly allowance reflecting the ship's expected operating and deployment schedule, or the obligation rate within equal quarterly allowances was adjusted to the anticipated operations. The next most popular method of dividing the APF was by month. Deployments in which the ship operates away from the United States for several months with embarked Marines were the most significant factor governing obligation rates. In order to adhere to the financial plan, the commanding officers relied heavily on the weekly budget report to provide them with an up-to-the-minute picture of the budget status. Contingency funds were used on most ships to pay for unexpected major expenses that would otherwise disrupt the budget.

Periodic review of the budget has been conducted on almost all of the ships reporting. A quarterly review and a weekly review were equally popular. The two commanding officers who reported that they did not review their budget cited as their reason the lack of good usage data. Each of them preferred to adhere to his original judgment until he had valid historical data with which to compare performance.

Turning to the area of the departmental division of the APF, repair parts were not included in the department budgets with the exception of two

reporting ships. COMPHIBLANT did not require that repair parts be so excluded, but his recommendation has been generally followed. When it came to dividing the consumables portion of the ship's budget among the four major departments, a great deal of variance was shown between actual allocations and the sample budget illustrated in the POSTAR instruction. The average breakdown by departments was as follows: Deck--36%, Engineering--25%, Operations--10%, and Supply--17%. Of these averages, only that of the Operations department was close to being the mode as well.

The most frequently cited basis for fund allocation to the departments was usage data. It was followed by planned work schedules and personal experience. No indication has been made on any of the questionnaires as to the precision of available usage data, but since previous accounting procedures did not provide specific consumption data, the accuracy was probably a function of the time spent examining old requisition records.

In order to appreciate the reasons for the wide differences among the amounts of funds made available to the various departments, the differing responsibilities of the department heads should be noted. The Deck Department of a ship is charged with maintaining a major portion of the ship's exterior and the small boats embarked (except for their engines) as well as conducting all evolutions involving deck seamanship. These duties necessitate spending large amounts of money for paint, cleaning material, and rope. Often the Deck Department purchases the ship's cleaning supplies and issues them to the other departments as needed. The Chief Engineer uses his funds to maintain the engine rooms and fire rooms and to buy lubricants for all the motors on board. In addition, his Repair Division does work for all departments, and the material consumed performing such jobs is purchased from the Engineering Department budget. The Supply

Department usually has a large number of interior spaces to maintain including the crew's messing area and the berthing and messing areas used by the officers. All of these living areas must meet high standards of cleanliness and repair thus requiring larger expenditures than most interior spaces. Finally, the relatively small percentage of funds received by the Operations Department stems from the fact that it often has fewer spaces assigned than other departments and most of them are inside the ship, a condition which makes them much easier to maintain than exterior ones. However, since most of a ship's electronic equipment is the responsibility of Operations, this department is usually number one in terms of repair parts expenditures.

Survey results indicated that Commanding Officers gave their subordinates much freedom regarding departmental practices. Some form of departmental obligation rate was required by a ratio of two to one, whereas commanding officers were three to one in favor of an obligation rate for their ship's budget. Here again, the prescribed rate was based on a quarterly schedule with the operation schedule taken into consideration, and the weekly budget report has been the most commonly used instrument for comparing performance with plan.

Commanding Officer Evaluations of POSTAR

Turning now to the evaluation of the POSTAR system, responses were heavily favorable by a ratio of nearly five to one. Almost to a man, commanding officers appreciated the flexibility they have to plan their spending for the year, especially concerning deployments. Ships have not needed to request augmentations or OPTAR advances in order to accumulate consumables and fill inventory deficiencies prior to going overseas as was frequently the case under the old system. Other reasons mentioned for the superiority of POSTAR varied widely, but

one interesting remark was that it presented junior officers with a stimulating challenge and allowed competition between them to see who would turn in the best management performance. On the dissenting side, two officers mentioned not being able to request an augmentation if their funds ran low, and a third indicated that departments should be required to budget for their repair parts as well as consumables.

Commanding officers were asked to list the two factors which they believed to be the greatest obstacles to more effective management of POSTAR funds. In this part of the questionnaire, there were almost as many different ideas as there were respondents. However, grouping the replies by broad categories revealed nine complaints against the Navy's supply system as opposed to four for the category in second place.

The single most frequently mentioned obstacle was the slow delivery time encountered when ordering material with a routine priority. One officer mentioned frequently waiting nine months for an order to be received. Besides tying up funds for long periods of time, long lead-times frequently caused material to be reordered as the need for it increased, and when it could no longer be done without, the ships resorted to emergency means, i.e. getting the order filled by another ship (either through a trade or by promising to reimburse the ship at a later date) or purchasing the material from civilian outlets. As often has been the case in these situations, the previously ordered quantities arrived and the ship became over-stocked.

Four other supply system difficulties were mentioned by respondents. The first was that allowance lists of repair parts to be carried in support of individual equipments did not adequately support the intended equipment. This may mean that not enough different parts were stocked, or that they had not been

stocked in sufficient quantity, or both. Another complaint expressed was that supply centers were too frequently out of stock of commonly used material. When this happened, requisitions were usually held and filled when re-stocking occured, but in some instances the requisition was returned to the ship and cancelled. Then the obligated funds were returned to the Type Commander's allotment. The Type Commander's usual practice was not to reimburse the ship with the frequent result being that the ship was left without the goods and without the money. This practice was also mentioned as one of the hindrances to better financial management. Finally, out-dated catalogue prices were also viewed as a problem. When an item was received, it was not uncommon to discover that the ship was charged fifty or a hundred percent more for it than the ship's catalogue price.

A ship's changing operating schedule was listed as a major problem. Officers knew when they were to make scheduled deployments several months in advance, but a detailed breakdown of the quarterly schedule was not promulgated until the quarter was about to begin. This has naturally handicapped long-range planning efforts, and the fact that the schedule was frequently changed during a quarter further complicated matters. For example, during the author's last deployment to the Seventh Fleet, his ship received a schedule change approximately each week during the five month cruise. Although a ship's schedule is far more stable than this when the ship is operating in the vicinity of the United States, the example does point out the problem faced by commanding officers and their department heads as they attempt to prepare and carry out a budget.

The inclusion of repair parts in the ship's budget was mentioned by three officers as a major handicap. The difficulty, of course, was uncertainty. One never knew when a piece of equipment would fail and require repair parts to become operational again. A couple of actual problems could be mentioned to

illustrate the problem. One ship spent $3,000 in one month for repairs to its gunfire control system. The amount budgeted for all repair parts for the year was $25,800. The following statement was taken from the reply of the commanding officer of a ship with an Annual Planning Figure of $85,000:

> . . . in one week, parts for the (air search) radar alone cost about $10,000. Safety devices for one cargo elevator cost $150 each, and in less than two years since commissioning the usage rate is about one every two months. On another elevator certain units cost about $300 and thus far three or four have had to be replaced. In two days over $900 was spent for parts on the (gunfire control system). It seems we have a large variety of equipment that has low reliability and is expensive in materials and manpower to maintain.

When coupling the difficulties involved in budgeting for these types of expenditures with the lack of knowledge of planning and budgeting mentioned by some commanding officers, it is possible to better appreciate the difficulty which they encounter in preparing their financial plans.

The last two POSTAR management difficulties mentioned frequently enough to merit attention stemmed from poor historical usage data and the difficulty involved trying to reduce waste caused by neglect and inexperience. The accounting system used prior to 1 July, 1965, made no provision for accumulating expenditure or obligation totals by categories, i.e. consumables, repair parts, and equipage. To do this required one to go through the ship's requisition log and categorize requisitioned material before adding the total costs within each grouping. Considering the total number of requisitions processed on even a relatively small ship during a year, it was not surprising that very little was known about the composition of past expenditures. However, financial data collected for the preparation of weekly budget reports should facilitate future budget preparation. Officers would be pleased if the problem of how to prevent waste in the Navy were as readily solved.

Department Head Replies

Analysis of the department head questionnaires indicated a great deal of similarity to the responses obtained from commanding officers. Perhaps the greatest variance was centered in the answers received to the question of whether departmental budgets were established only for consumable items. Although only two commanding officers indicated that departmental budgets were for consumables and repair parts, nineteen out of fifty-three department heads reported purchasing both types of items with their funds. Since in most cases it was possible to match the questionnaires of commanding officers and those of their department heads, the variance is possibly explained by the semantics involved. The department heads may have thought of items that they bought which they themselves did not think of as consumables and marked the questionnaire appropriately.

In very few cases were the departmental budgets sub-allocated to the various divisions within the department. When this was done, the usual basis for the allocation was listed as "experience." It was interesting to note that in most cases there was no more than one department on a ship employing division budgets.

Most officers established a planned obligation rate with a quarterly division of funds based on the operating schedule. In order to compare performance with the budget, the weekly budget report was again listed as the favorite tool. The methods used to restrain the obligation rate basically centered around some method of purchasing priorities. Thirteen respondents mentioned that they only bought essential things until they were positive there would be sufficient money for them to afford "nice to have" items. Such a strategy might have been in the minds of many of the twenty-four other officers who relied upon

personal screening of requisitions by themselves or a designated officer representative to keep the lid on spending.

Control of waste emerged from the survey as a large problem on board ships. The most popular way to regulate usage was either through the use of an issue control or a purchase control system. The former typically called for some type of issue request to be approved by an officer or petty officer before the person maintaining custody of the material would make an issue. Some issue control systems used a rationing approach whereby a division was allotted, for example, two boxes of scouring powder per week and no more. A looser type of control system was aimed at keeping track of requisitions for various items. When it appeared that too much of a particular commodity was being bought, the person approving requisitions simply required more justification for a purchase. The final method of waste control with more than one response was simply to bar departments from accumulating inventories of consumables. Ships in which this occurred placed all items under issue control of the Supply Department.

Most department heads found it desirable to review their budgets periodically and to make revisions as necessary. A quarterly review was preferred by most with a weekly review placing second. Whether an actual review of the financial plan was conducted weekly or whether this was simply a quick comparison of funds obligated to date with the remaining balance is not clear.

Department Head Evaluations of POSTAR

When queried as to whether they think the POSTAR system allows more effective management of financial resources than the OPTAR system, the department heads did not say "yes" in such a resounding fashion as did their commanding officers. Instead of the five to one ratio among the commanding

officers, the department heads were in favor of POSTAR by a score of thirty-one to fourteen. They did agree that the new system's primary advantage was its flexibility. Surprisingly enough, only four of them mentioned the ability to lay out long-range purchasing plans as a benefit. An interesting question is whether it simply did not occur to more respondents to mention it.

Where reasons were given for the dissatisfaction with POSTAR, there was such a diversity of opinion that only one response was mentioned more than once, and it was not actually a fault of the system. Four officers replied that they were on rigid quarterly allotments from their commanding officer and that nothing had changed from the old days of OPTAR. The accompanying lack of flexibility was mentioned. (It should be pointed out that the Commanding Officer who used the POSTAR system in this manner had an extremely junior set of department heads under him, and this was probably a factor affecting his POSTAR policy. Of the group, none had more than three years experience as an officer, and two had less than eight months of commissioned service.)

Department heads considered the major obstacles preventing better management under POSTAR as stemming from the supply system. The same five specific problems mentioned by commanding officers were listed, plus an additional one. This additional problem was the receipt of substitute material for that which was originally ordered. While such substitutes are supposed to be capable of functioning in the place of the regular item, users found that they did not always do so. As a result, the desired object had to be re-ordered.

Two officers made specific comments concerning the long lead-time that they encountered when ordering various goods. One said that he has waited from four to six months for frequently used items such as paint and tools; the other replied that he has an average of six months' funds tied up in outstanding

requisitions at all times. The author's own experience was that the four to six months delay figure was not out of line, especially for low priority repair parts. The arrival of such items on the ship within a month after ordering was quite unusual.

The second major difficulty affecting management of POSTAR funds once again was the frequency of operating schedule changes that disrupt plans. Closely associated with this was the difficulty mentioned of foreseeing needs. Not only did planning problems result from unstable operating schedules, they were also caused by other conditions. For example, a change of command ceremony slated to take place in the vicinity of a ship's berth can suddenly generate a need for the ship's exterior to be painted ahead of schedule.

One problem cited by department heads was that of insufficient funds. More specific comments indicated that preparing for two deployments in the same fiscal year was a heavy burden. The point was also made that cutting corners to save money in the short run sometimes resulted in increased costs at a later time.

Finally, the conservation problem was listed as one of management's difficulties. How to impress those at the bottom of the organization of the need to conserve supplies was cited five times.

The only additional comment made on the questionnaires that has not already been mentioned concerned the method of obtaining equipage under the POSTAR system. As was mentioned earlier, ships are required to submit a list to COMNAVLANT giving their equipage needs and the relative priority of these needs. In return, he fills these shortages as funds are available, the availability of which is a function of the money spent on consumables and repair parts within the Force. One supply officer stated that the equipage funds had already been

depleted (as of February) and that ships had to order certain items of equipage with their own money. Another supply officer commented that between the first of July and the beginning of February, his ship had received two out of 190 equipage items requested. These statements indicated that some modification to the current method of handling equipage purchases may be necessary.

Summary

As a means of reviewing this chapter, a description of a "typical" ship in the Amphibious Force follows. The Commanding Officer of the ship began the budgetary process by making a division of the Annual Planning Figure among the categories repair parts, consumables, and contingency fund based upon some knowledge of past expenditures. The consumables portion of the budget was then allocated by departments using previous usage data and expected work schedules as guides. An obligation rate for the ship, typically by quarters, was established as well as for the departments, although this latter function might have been left to the judgment of the individual department heads. In order to remain on the spending schedule, the weekly budget report was used to compare performance with the plan. The budget has been revised when the need has occurred, but at least quarterly. Control of waste centered around two methods: (1) personal review of all requisitions by the heads of the departments, and (2) some form of issue control once the material was received on board. Although the ship's officers have generally been satisfied with the POSTAR system and have had a high degree of appreciation for the flexibility allowed them, they felt it would be more successful if certain deficiencies were eliminated from the supply system. The most important of these was the slow delivery time of material ordered on routine priority. These officers also mentioned that operating schedules were

not firm enough to facilitate careful planning and that consumption of repair parts was too variable to predict and include in a budget.

CHAPTER V

A PROPOSED BUDGETING SYSTEM

Much information about budgeting has been assembled by theoreticians and practicioners. An attempt will be made to integrate some of their ideas with the problems and procedures encountered in the Fleet. In this chapter budgets are discussed in terms of what they are, what they should do for a manager, and what elements ought to comprise a sound budgetary system. Following this, a plan is presented which, it is hoped, will be of value aboard ship when used in connection with annual funding procedures.

Budgets--Definition and Requirements

Definitions of the word "budget" vary widely according to the individual who is using the term, but perhaps the most accurately descriptive one is that a budget is a plan of operation stated in terms of figures.[1] In other words, they describe future operations through the expected dollar outlays that are associated with them. A budget should serve three major purposes.[2] The first is that of providing a constant look at the future. In this role a budget is analogous to the headlights of an automobile in that it allows the operator to foresee and take timely action to avoid obstacles that lie ahead. Second, the budget provides a basis for making proper management decisions. It helps the

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[1] James L. Pierce, "Control by Budget," The Controller, XXV (July, 1957), p. 328.

[2] Ibid., p. 329.

manager to know the effects of the costs involved upon his available financial resources and how these costs will affect other plans already formulated. Finally, budgets provide a mechanism for helping to control and reduce costs.

Various features that should be present in a system of budgeting have been set forth in the literature on the subject, some of which are not relevant to a shipboard situation. However, it is felt that a plan of budgeting designed for use aboard ship should perform the following functions:[1]

1. Allow the ship to comply with policies prepared by higher authority, primarily COMPHIBLANT's POSTAR instructions in this case.

2. Define objectives, i.e. maximizing readiness within the constraint of the fixed sum of money available for use.

3. Declare policies to be employed, including guidelines for the use of contingency funds and assigning purchase and issue responsibility for certain consumables to particular departments.

4. Provide for budget allocation based on careful research and study of available information dealing with past costs and future expectations.

5. Emphasize maximum personal participation throughout the shipboard chain of command to get people personally involved in both budget preparation and execution.

6. Co-ordinate departmental planning efforts to reduce conflicts and facilitate preparation of purchasing programs.

7. Assist in achieving better control of expenditures.

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[1]This list of functions was compiled by the author from budget system requirements set forth by J. Brooks Heckert, "The Objectives of Budgeting," Federal Accountant, III (March, 1954), p. 3; and U.S., Department of the Navy, H. A. Renken, et al., "Planning, Programming, Budgeting, and Appraising Study," study 2 of Volume II of Review of Management of the Department of the Navy, NAVEXOS P-2426B-2, October, 1962, p. 32.

8. Help prevent waste and thereby reduce costs.

9. Establish procedures for periodic review of the budget.

10. Be responsive to the needs of the ship by being flexible.

A Proposal

The first phase of budget preparation under the proposed program entails planning by division officers and their leading petty officers to map out long range maintenance projects and the material requirements involved. In recognition of the changing nature of ship operating schedules, these plans should not be precise. Instead, they should be fairly flexible. For example, decisions should be reached about how many times a space is to be painted and in what quarters of the year the work will be accomplished. Quantities of material involved and the cost should be computed for each major job with an aggregate figure for each quarter and the entire year compiled. Later, as jobs are shifted between quarters, cancelled, or new ones added, knowledge of the financial consequences will be readily available to the decision-maker. With the division plans formulated, department heads can have a planning session with their division officers to review, alter as necessary, and integrate the separate plans into a program for the entire department for the year. Once the operating schedule for a given quarter is known, work can be scheduled by the month or, if desired, by weeks within the quarter. For the other quarters of the year, the operating schedule will probably be too unreliable to make plans in greater detail than by the month, and quite possibly a listing of jobs by quarter will be the maximum degree of precision attainable. Costs of jobs that are expected to involve repair parts expenditures should be estimated to obtain an idea of future parts expenditures. For example, if a semi-annual maintenance check of the

ship's radar ordinarily involves spending about $100 for components, this should be planned and the information should then be used at the next step in the planning process, a meeting of the Commanding Officer and the department heads.

At this conference the departmental plans are to be consolidated into a ship's program. Departmental evolutions that will affect other departments can be noted and work schedules adjusted as necessary. The Commanding Officer should assess total requirements and alter programs if this is required in view of the funds available. After being informed of his inventory status, he can then divide the Annual Planning Figure among consumables, repair parts, and contingency fund and further allocate the consumables portion among the departments, based upon their best estimates of their expected needs. The financial policies the Commanding Officer desires to establish can be promulgated at this time. Department heads should leave the conference knowing how much money they have for the year and how much of it will be required to fund work that is already programmed for accomplishment. As an example, the Gunnery Officer (in charge of the Deck Department) should know how much white paint the engineers will require to paint their fire rooms and engine rooms, and he will know approximately when they will want this paint. He can therefore decide when and in what quantities to purchase white paint in order to meet the expected demand. Purchasing programs can be drawn up for all items having such a predictable demand. Knowing what funds he will be required to spend will leave the department head with an idea of about how much money will be available for discretionary purchases. Any changes in plans can be evaluated and allowance made for their impact on the department.

Tighter cost control can be achieved by assigning responsibility for various commodities to designated departments. For instance, Deck might have

control of paint and cleaning materials; Engineering, lubricants and rags. Each department head can then integrate the needs for his commodities with the funds he has available to spend for them and prepare standard quantities of issue. The Repair Division, as an example, might be allowed five cans of scouring powder each week with which to clean its assigned spaces. One man could be designated from that division to receive cleaning material each week upon presentation to the man responsible for cleaning material of an issue request approved by the leading boatswain's mate. Department heads should help to prevent waste by observing how the materials they have paid for are used. In an effort to conserve their own funds they will be interested in insuring that such materials are not wasted.

The weekly budget report can be used as the primary means of comparing actual obligations with expected obligations. To improve future budgets, actual expenditures for work accomplished should be compared with the planned expenditures as soon as the data are available so that more accurate usage data will be available for planning purposes.

Near the end of each month the schedule for the remainder of the quarter should be revised as necessary in the light of what was actually accomplished during the month. Then as each quarter draws to a close, performance should be reviewed, detailed plans for the next quarter prepared, and the budget for the remainder of the year revised if necessary.

The success of this system will be partially dependent upon the support it receives from all the ship's personnel. Everyone on board needs to be made aware of the objectives of the program, policies to be employed, the limited availability of funds, and how performance compares with the current plan. The more participation in the program that can be achieved, the greater are the

chances that individual motivation can be aligned toward the ship's objectives.[1]

Summary

A budget is essentially a plan of action written in terms of dollars. It can provide a manager with a dollar value for his planned course of action, it can give him information to use in making better decisions, and it can help to reduce costs. Numerous requirements for budgetary systems have been listed by various authors. Several of these can be applied to the situation that exists on a naval vessel. As an aid to officers serving aboard ships which receive their maintenance funds annually, the following suggested method of budgeting is submitted:

1. Division officers and leading petty officers should prepare work schedules and the associated costs for the entire fiscal year.

2. Department heads next compile departmental schedules based on the division plans. Work should be scheduled by quarters, except for the first quarter which should be planned by the month. Anticipated expenditure programs should be prepared based on work schedules, the operating schedule, and the deployment schedule.

3. Commanding Officers should integrate departmental programs into a ship's plan and allocate funds by material category. The consumables portion of the funds should be divided among the departments. Basic financial policies should be outlined and overall responsibility for as many items as possible assigned to individual departments.

4. Department heads should make final adjustments to their expenditure programs and implement procedures for issue control of consumables.

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[1]Douglas McGregor, The Human Side of Enterprise (New York: McGraw-Hill Book Co., 1960), p. 130.

5. The remaining portion of the quarterly schedule should be revised as necessary each month. At quarter's end monthly schedules should be prepared for the next quarter. A review of the budget should be held quarterly and revisions made to the budget that may be desirable.

6. The crew should be kept informed of objectives, policies, and the budget status.

CHAPTER VI

SUMMARY AND CONCLUSIONS

Summary

In 1965 the Navy introduced new reporting procedures for the purpose of supplying data that should enable more effective justification of Supplies and Equipage budget requests. These procedures are an interim measure designed to bridge the gap of time that will transpire before the Standard Navy Maintenance Program's data collection system can provide the desired information to help justify the Fiscal Year 1969 budget. The basic cause for this change was that the previous lack of facts to justify budget requests made the Operation and Maintenance, Navy appropriation request particularly susceptible to reductions during the review process. The Navy simply has not been able to prove the need for the funds requested and regarding Supplies and Equipage has not presented accurate operating cost figures or data illustrating the specific effects of budget reductions. The reductions have come at all levels of review--Secretary of the Navy, Secretary of Defense, Bureau of the Budget, and Congress. The effects upon the Fleet of this process have been: (1) to cause a real scarcity of funds for day-to-day maintenance, (2) to reduce repair parts inventories well below authorized levels, and (3) to contribute to a tremendous increase in equipment down-time that is traceable to the non-availability of repair parts.

The Supplies and Equipage portion of the Navy's budget provides the funds used to buy consumable items, repair parts, and the equipage required by

the ships. The first two categories support the daily maintenance carried out by a ship's crew. The cornerstone of the maintenance facilities used to keep the Fleet operating is the crews of the various ships. Other facilities available to a commanding officer include repair ships and shipyards. Work done off the ship generally does not comprise an out-of-pocket cost to the ship. Additional sources of money for repair parts come from the type commanders who fund allowance list deficiencies at the time of a ship's regular shipyard overhaul and from a separate appropriation which pays for certain expensive parts included in the Appropriation Purchases Account category.

At the beginning of the 1966 fiscal year, the system concerned with the operating allowances granted to Amphibious Force ships was changed in order to provide ships with a flexible system more responsive to their needs. Budgeting at the shipboard level is a mandatory part of the procedure, but the budgeting methodology is left to the discretion of the commanding officers. The key element of the new system is that funds are now made available for the entire fiscal year by COMPHIBLANT rather than on a quarterly basis as before. Most of the officers responding to a survey indicated that POSTAR is an improvement over the previous OPTAR system and that its number one advantage is its flexibility. It has greatly simplified preparation for deployments by eliminating the need for requesting advances and augmentations to finance inventory buildups before leaving for overseas areas.

Some difficulty has been experienced in getting used to the POSTAR system because many of the officers using it have had little, if any, training in the areas of financial planning and budgeting. Ship and departmental budgets are primarily based upon past usage data which the previous accounting system was not geared to provide. However, shipboard accounts are now accumulating data

in order to facilitate the preparation of a weekly budget report, and this same information should be of significant value for preparing future budgets.

One of the problem areas of the OPTAR system that POSTAR has not eliminated is that of paying for repair parts with the ship's available funds. At unexpected times there are often extremely costly repairs which must be made and paid for at the expense of other worthy projects.

During the phases of budget preparation and execution, allowing for the unknown appears to be the area of greatest difficulty for officers. The Navy's supply system is also a cause of major concern because long leadtimes freeze large sums of money in outstanding requisitions and cause reordering to occur. Additionally, ships frequently lose a portion of their Annual Planning Figures when requisitions are cancelled by themselves or by supply centers. Funds which are obligated for requisitions that are later cancelled revert to the Type Commander. Although he may return them to the ships involved, this is not usually done.

Conclusions

If the forthcoming Standard Navy Maintenance and Material Management Program is able to live up to the expectations currently held for it, the Bureau of Ships may be able to justify Supplies and Equipage requests that will enable the Fleet to receive more adequate funds. Since 1962 the Operating Forces of the Navy have been subsisting with about 80% of their estimated requirements. One department head summed up the situation when he commented:

> Regardless of what name we attach to any system of maintenance of funds, there is no real difference in the overall outcome. The Navy has too little money to properly maintain average ships. We can call it by any name we please, and there have been many, but a rose is a rose is a rose.

It remains to be seen what the interim procedures will accomplish between now and the 1969 budget, but NAVSHIPS budgeting personnel are hopeful that funding level improvements can soon be made. With increased availability of funds there should be a decrease in shipboard inventory deficiencies, an increase in the support the supply system is able to provide, and a resulting drop in the total equipment down-time caused by the non-availability of repair parts.

Questionnaire responses indicate that the supply system is not doing an adequate job of providing its share of the logistical support required by the Fleet. It simply takes too long to receive many of the items used aboard ship, even ones that are frequently ordered. Besides causing work to halt until material arrives, slow delivery can lead to large portions of a ship's money being tied up in outstanding requisitions and hence not available for other purposes. But most important, equipment is forced to remain partially or fully inoperative until needed parts are received.

Mandatory budgeting on board ship has placed many officers in the unenviable position of having to perform an operation that they have had little, if any, training to perform. At the same time the difficulty has been compounded by the fact that this budgeting must be done in the face of real economic scarcity of the principal resource involved--money. Some type of educational material should be disseminated which clearly outlines the objectives of budgeting, the benefits that it can provide the manager, and budgeting methodology. Numerous replies to the questionnaire indicated either a feeling of scorn or contempt for budgeting or else a sincere interest in trying to properly plan and budget in the face of ignorance regarding how to proceed. These feelings of antagonism and inadequacy are two symptoms of a management problem requiring solution in the Amphibious Force. For budgets to be of maximum benefit to a

manager, he must understand how they can be of service, have confidence in them, and, in this case, be able to prepare them. The way to achieve this understanding may be through education.

As a first effort in the education of shipboard personnel, there is presented in Chapter V a discussion of budgeting purposes and a proposed budget system for shipboard use. The system is based upon criteria for an effective system which have been taken from budgeting literature, the author's shipboard experience, and the procedures currently in use aboard Amphibious Force ships. It is essentially a method for analyzing requirements and integrating them across departmental lines into a plan of action for the entire ship, allocating funds on the basis of this plan, preparing work schedules and purchase programs, controlling the issuance of consumable supplies, and providing for periodic comparison of performance with the plan. In its proposed form, it makes allowance for changing operating schedules and does not advocate working in greater degrees of detail than is realistic. It is hoped that this system can meet the performance test of enabling managers to know their expected future dollar requirements and to have a better understanding of the financial consequences of their decisions. If it does this, the results should be translatable into increased operational readiness.

Finally, response to the questionnaire indicated that receiving maintenance funds on an annual basis is much preferred to the more common quarterly method. Annual funding is far more flexible, and it requires officers to become more involved in planning. If annual funding is combined with a budgeting system that is understood and accepted by shipboard personnel, opportunities exist for more effective use of funds at the same time that the management capabilities of officers and petty officers are being developed.

APPENDIX A.

NAVY GRADUATE FINANCIAL MANAGEMENT PROGRAM
THE GEORGE WASHINGTON UNIVERSITY
WASHINGTON, D. C.

TO: Commanding Officers of the Amphibious Force, U. S. Atlantic Fleet

One of the most difficult problems facing a Commanding Officer and his Department Heads is that of maintaining a ship in the desired high state of material readiness while remaining within the bounds of the funds assigned. Methods for accomplishing this objective vary greatly from person to person.

The enclosed questionnaires are part of a study whose purpose is to discover how Commanding Officers and Department Heads in the Amphibious Force of the Atlantic Fleet manage the POSTAR funds available to them. There is no fully prescribed method of doing so, but it is hoped that with the help that you and the Department Heads of your ship can give a way can be found to ensure that the funds are spent as effectively as possible.

Your help and the assistance of your Department Heads in filling out and returning the attached questionnaires would be deeply appreciated. You may sign the questionnaire or not, depending upon your preference. In order to be of maximum usefulness, your reply is desired as soon as possible. Please accept my sincere thanks for your assistance.

Very truly yours,

B. R. Buchholz

B. R. BUCHHOLZ
LT USN

APPENDIX B.

COMMANDING OFFICER'S POSTAR MANAGEMENT QUESTIONNAIRE

I. Your rank _____. Years commissioned service _____.

II. Size of ship's Annual Planning Figure _____.

III. Ship's budget information.

1. Annual budget for:

   a. Repair parts _____.

   b. Consumables _____.

   c. Contingency _____.

2. What factors govern your division of the APF among the various categories?

3. Is there a planned APF obligation rate in effect on your ship on a quarterly or some other basis? Yes _____ No _____

   a. Is this plan based on a straight percentage division of the annual amount, an expected schedule of operations and upkeep, or some other factors?

4. What methods do you employ in order to remain within the planned obligation rate?

5. Is the budget periodically compared with performance and revised if necessary? Yes _____ No _____.

   a. How often is this done?

IV. Departmental budget information.

1. Annual budget for:

   a. Deck _____.

   b. Engineering _____.

   c. Operations _____.

   d. Supply _____.

2. Are the department budgets established only for consumable items?
   Yes _____ No _____.

3. What factors govern your division of funds between the departments?

4. Is there a planned obligation rate on a quarterly or monthly basis? Yes _____ No _____.

   a. Is this plan based on a straight percentage division of the annual amount, an expected schedule of operations and upkeep, or some other factors?

5. What methods do you employ in order to remain within the planned obligation rate?

V. Does the POSTAR system enable you to more effectively manage the financial resources available than the old quarterly OPTAR system? (Please give reasons for your answer)

VII. Additional comments.

Please return this form to:

LT. BUCHOLZ, NAVY PROGRAM
THE GEORGE WASHINGTON UNIVERSITY
RM. 206 GW'T. HALL
710 21st ST., NW
WASHINGTON, D.C. 20006

APPENDIX C.

DEPARTMENT HEAD'S POSTAR MANAGEMENT QUESTIONNAIRE

I. Your rank _____. Years commissioned service _____.

II. Size of ship's Annual Planning Figure _____.

III. Departmental budget information.

1. Your department is _____.

2. Your annual budgeted amount is _____.

a. Is this amount to be used for expenditures other than for consumables? Yes _____ No _____.

3. Is your departmental budget sub-allocated to the divisions in your department? Yes _____ No _____.

a. What is the breakdown of funds between them?

b. What factors govern your sub-allocation of funds between the divisions?

4. Is there a planned obligation rate in effect for your department on a quarterly or some other basis? Yes _____ No _____.

a. Is this plan based on a straight percentage division of the annual amount, an expected schedule of operations and upkeep, or some other factors?

5. What methods do you employ in order to remain within the planned obligation rate?

6. What methods (issue control, usage standards,etc.) are used to control the use of consumables and prevent waste?

7. Is the budget periodically compared with performance and revised if necessary? Yes _____ No _____.

   a. How often is this done?

IV. Does the POSTAR system enable you to more effectively manage the financial resources available than the old quarterly OPTAR system? (Please give reasons for your answer)

V. What do you consider to be the two factors which are the greatest obstacles preventing more effective management of POSTAR funds?

VI. Additional comments.

Please return this form to : LT. BUCHHOLZ, NAVY PROGRAM
THE GEORGE WASHINGTON UNIVERSITY
RM. 206 GOV'T. HALL
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